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REPORT OF THE INTERGOVERNMENTAL GROUP OF EXPERTS ON IRON ORE ON ITS FIRST SESSION

held at the Palais des Nations, Geneva,
from 26 to 28 October 1992

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INTRODUCTION

1. The first session of the Intergovernmental Group of Experts on Iron Ore, established pursuant to the decision adopted by the Standing Committee on Commodities on 23 October 1992, was held at the Palais des Nations, Geneva, from 26 to 28 October 1992.

2. The session was chaired by Mr. Sam-Hoon Kim (Republic of Korea). In the course of the session, the Expert Group held two plenary meetings. At its 1st (opening) meeting, on 26 October, it decided to pursue its discussions on agenda items 3, 4, 5, 6 and 7 in informal meetings. It was agreed that a summary of the informal discussions would be presented by the Chairman at the closing plenary meeting.

3. The Chairman, in his opening remarks, stated that developments in the iron and steel industries both reflected and affected national economic development. Participants could therefore look at these industries and gain a basic understanding of trends in the world economic situation. The present session of iron ore experts was being held at a time when the world economy was trying to recover from a serious slump. He encouraged everyone to participate in what he expected would be a free and open-minded discussion of the current outlook for that important industrial sector. He expressed the hope that the session would conclude with a deeper understanding of the mutual concerns of participants regarding iron ore production, consumption and the ferrous industries in general.

4. In his introductory statement, the Deputy to the Secretary-General of UNCTAD and Director of the Commodities Division, in welcoming government representatives and industry experts, recalled that the eighth session of the United Nations Conference on Trade and Development, held in February 1992, had given greater importance to analytical work and technical cooperation. In the field of commodities, it was felt that market transparency and international producer-consumer cooperation through, inter alia, study group types of arrangements, were essential to the effective functioning of commodity markets. In that new context, the secretariat was gratified to see that the experience accumulated during the last six years of work of the Group of Experts was pointing in the right direction. The formal decision adopted on 23 October 1992 by the Standing Committee on Commodities to re-establish the Intergovernmental Group of Experts on Iron Ore as one of its subsidiary organs, as presently constituted, reflected the fact that the Group, set up in the 1980s within UNCTAD, was fully consistent with the spirit of the Cartagena commitment.

5. Referring to the iron ore market, he noted that in 1991, despite the softening in demand caused by the sharp drop of iron ore consumption in Eastern European countries and the impact of the North American recession, trade remained strong owing to the continued dynamism of the Asian markets. In 1992, however, iron ore market conditions had been deteriorating rapidly, reflecting the downturn of the world economy and weak steel demand, particularly in Japan.

6. In 1991 world production of iron ore, although 3 per cent lower than in 1990, reached 945 million tonnes, of which 396 million were traded on the world market. The iron ore trade had amounted to US$ 8.55 billion in value, iron ore thus ranking first in terms of value and volume among the non-precious ore commodities.

7. On the other hand, despite a number of adverse factors such as the drop in demand, lower prices, difficult access to capital and high interest rates, the world iron ore industry was embarking upon major investments. While the need for some investment decisions seemed justified, the prevailing weakness of the market was likely to lead to the scaling down of some plans which might now seem over-optimistic.

8. The representative of Canada expressed, on behalf of the participants, their appreciation for the timely distribution of the statistics and documents prepared by the UNCTAD secretariat, and for the quality of the documents made available at the session.

Chapter I

REVIEW OF IRON ORE STATISTICS
(agenda item 3)

REVIEW OF THE CURRENT SITUATION AND OUTLOOK FOR IRON ORE
(agenda item 4)

BIBLIOGRAPHY OF RELEVANT STUDIES ON IRON ORE
(agenda item 5)

PREPARATIONS FOR THE SECOND SESSION OF THE INTERGOVERNMENTAL GROUP OF EXPERTS ON IRON ORE
(agenda item 6)

OTHER BUSINESS
(agenda item 7)

A. REVIEW OF IRON ORE STATISTICS
(agenda item 3)

(a) Review of the document "Iron ore statistics 1982-1991" (TD/B/CN.1/IRON ORE/2)

9. The UNCTAD secretariat presented this document containing 27 tables with updated, detailed statistics, based on the replies received to the UNCTAD questionnaire on iron ore. As of 15 July 1992, 37 countries and the Commission of the European Communities on behalf of its 12 Member States had responded to the questionnaire.

10. The secretariat recalled that an effort had been made to compile comparable statistics taking into account uniform criteria and commonly agreed definitions, but there was still scope for improvement. A move in the right direction had been the inclusion of a page with definitions, and footnotes for each table.

11. The secretariat drew the attention of participants to the importance of Explanatory Notes Nos. 2 and 3, in order to avoid a wrong interpretation of the 1991 figures compared to those for 1990. The first Note referred to German reunification, as a result of which the totals for EEC and developed market-economy countries were higher than usual whereas figures for the countries in Eastern Europe were lower than they should be, since they showed a new series excluding the former German Democratic Republic. The second Note referred to the former USSR, for which there were figures up to 1991.

12. The secretariat recalled that the tables providing more disaggregated data by product types had limited coverage because they had been prepared exclusively on the basis of data received from answers to the questionnaire. Participants stressed that these data were not easily available worldwide and

expressed their appreciation for the efforts made by the statistical correspondents who had sent that very useful information, and by the secretariat who had collected and compiled them.

13. Revisions and up-to-date statistics were provided by participants for inclusion in the revised version of the document TD/B/CN.1/IRON ORE/2, distributed in the course of the session.

(b) Year-to-date statistics and estimates for 1992 and 1993

14. The secretariat distributed at the beginning of the session the informal document entitled "Year-to-date statistics - Latest statistics available for October 1992", presenting information on iron ore production, consumption and trade for the first three quarters of 1992 as well as forecasts for 1992-1993, which had been provided in reply to the request addressed by the secretariat at the beginning of September 1992 to the major producing and consuming countries. The secretariat stated that the number of replies had been very encouraging (16 out of 28 countries and the EEC had replied), and expressed its thanks to those countries for their extended cooperation in providing very timely statistics.

15. In addition, a mini-questionnaire was distributed to participants in order to collect the latest statistics available and/or estimates of key statistics for 1992 and 1993. The compilation of the up-to-date and revised data provided during the session was made available to participants at the end of the session as an informal document entitled "Latest statistics available to the UNCTAD secretariat, supplemented by data provided by delegates during the session".

(c) System of national statistical correspondents

16. The secretariat informed participants that 87 countries (three more than in the previous year) had designated focal points for the provision of iron ore statistics to the secretariat. The secretariat expressed its satisfaction with the enhanced collaboration of those countries, which even included some that did not take part in the Expert Group.

B. REVIEW OF THE CURRENT SITUATION AND OUTLOOK FOR IRON ORE (agenda item 4)

Review of document TD/B/CN.1/IRON ORE/3

17. The UNCTAD secretariat presented the document describing market developments in 1991 and the first half of 1992 (TD/B/CN.1/IRON ORE/3). It stated that in 1991 global apparent consumption of iron had decreased by 4 per cent to 937 million tonnes because the continuous growth of demand from Asian countries had been insufficient to offset the sharp drop that had taken place in Eastern European countries and the impact of the North American recession. At the same time, world production of iron ore had fallen by 3 per cent to 945 million tonnes, since the expansion of output in countries

like Australia, India and China had not fully compensated for the steep drop in the production of the former USSR. In the same year world crude steel output had declined by nearly 5 per cent, to 730 million tonnes.

18. Turning to regional developments, the secretariat pointed out that Africa's market share in the iron ore trade had continued to shrink. In the Middle East the abundance of oil and natural gas was favouring the expansion of DRI plants. In Eastern Europe, Ukraine had emerged as the largest iron ore producer. In the EEC iron ore production and capacity had continued to fall. In Latin America, Brazilian iron ore output declined for the second consecutive year, while Chilean production attained its highest level ever. In North America, the decline in iron ore output was relatively small. Australian iron ore production reached a record level in 1991 and some expansion was under way.

19. The secretariat recalled that in a climate of tight supply/demand balance the recovery of iron ore prices had continued in 1991. However, this trend had been reversed in 1992, when prices dropped between 5 per cent and 7 per cent owing to the decrease in demand.

20. Mr. David C. Meissner, Manager of Research and Development of Midrex Corporation, made a presentation on "Raw materials for Midrex iron: technical and commercial considerations". He stated that the production of direct reduced iron (DRI) and hot briquetted iron (HBI) had increased by 10 per cent annually over the preceding 10 years and was expected to grow to 35 million tonnes annually by the year 2000. He therefore stressed the importance of obtaining good quality reduction-grade pellets and lump ore for the production of DRI and HBI in order to optimize the plants' performance and control operating costs. The Midrex DRI process allowed plant operators the flexibility to choose from various iron ore sources and select the best mix of oxide pellets and lump ores, so as to arrive at the combination of physical and chemical characteristics suitable to their particular requirements. He recalled the progress that had been achieved in that respect since the introduction of that iron production technology.

21. Dr. Philip Rogers, Director and Head of Research of Simpson, Spence & Young Shipbrokers Ltd., made a presentation on "The importance of the freight market to iron ore trades". He stated that iron ore accounted for one quarter of total seaborne dry bulk trade and, together with other commodities related to steel production, to one half of total trade. Freight accounted for a variable but very significant proportion of the final delivered cost of iron ore, and the outlook for the freight market was therefore extremely important from the iron ore producers'/consumers' point of view. He pointed out that the shipping market was subject to a wide range of variables and that what happened in the freight market occurred across the board, affecting all internationally traded commodities. Consequently a view of the freight market should be formed that encompassed both developments in iron ore trades and likely tendencies in coal, grain and other commodities, as well as the fleet supply. After making an analysis of the market he concluded by forecasting that in 1993 the dry bulk market would see rates as low as they had been in 1992, mainly because of the supply of new tonnage coming on stream. Iron ore rates would respond in accordance with that general market scenario.

22. Experts from governments and industry reported on developments in their national markets and the activities of their companies. In particular, the following presentations were made:

- "The Canadian iron ore industry 1991-1993", by Mr. B. Chanda, from Iron Ore Co. of Canada;
- "Structural changes in the steel and iron ore market in Japan", by Mr. A. Ouchi (Japan);
- "The United States iron ore market in 1992 and outlook for 1993", by Mr. C. Bell (United States);
- "Overview of the Korean steel industry and iron ore demand in 1992", by Mr. J. H. Lee, from POSCO Ltd;
- "Iron ore developments in Australia in 1991", by Mr. T. Keating (Australia);
- "The Indian iron ore and steel market in 1991", by Mr. M. Singh (India);
- "Evolution of the iron ore market in Algeria", by Mr. M. Hasbellaoui (Algeria);
- "Current situation and prospects for iron ore production in Guinea and Liberia", by Mr. A. Davies, from NIMCO Iron Ore Sales (UK) Ltd.;
- "The Swedish iron ore industry 1990-93", by Mr. E. Wennerstrom (Sweden);
- "The Swedish iron ore industry towards the year 2000", by Mr. Kjell Jarnulf from LKAB;
- "The Brazilian domestic market 1991-1993", by Mr. F. D. Estrada (Brazil);
- "Recent iron ore and steel developments in Romania", by Mr. C. G. Radu (Romania).

23. The Intergovernmental Group reviewed the short-term market outlook in the light of the secretariat report (TD/B/CN.1/IRON ORE/3). It was felt that 1992 was a difficult year for the iron ore industry owing to the combined effect of lower prices, decreased demand, high investments, and declining trade. The market equilibrium had lost momentum since the supply of iron ore was expanding at a time when demand was contracting. This resulted basically from the slowing down of economic growth in major industrialized countries, particularly Japan and Germany, the two major markets for traded iron ore.

24. Regarding 1993, however, the Group felt that, despite uncertainties about the timing and strength of the recovery, the worst might already have passed

and that the iron ore market might respond to a slight improvement of steel production, particularly in Asia.

C. BIBLIOGRAPHY OF RELEVANT STUDIES ON IRON ORE (agenda item 5)

Review of the document "Annotated bibliography on iron ore - 1992" (TD/B/CN.1/IRON ORE/4)

25. The secretariat presented the document containing an extensive list of the latest publications on iron ore, based on responses to the questionnaire sent to the member States of UNCTAD and to all international organizations concerned.

26. Attention was drawn to Part III of the document dealing with summaries on specific topics. In addition to section A on mining capacity and investments, showing world pelletizing capacity according to the United States Bureau of Mines, section B dealt with the evolution of supply and demand and presented the projections of the International Iron and Steel Institute (IISI) on steel demand discussed at the previous year's annual meeting of that organization. An innovation was section C focusing on mining and environment, where the environmental guidelines known as the "Berlin Guidelines" had been reproduced.

27. The representative of the International Labour Organisation (ILO) confirmed that the "Note on the proceedings" of the twelfth session of the Iron and Steel Committee would be issued in November 1992. It would include summaries of all discussions, including such questions as the globalization of the steel industry and the environment, and the texts of the conclusions and resolutions adopted by the Committee.

28. The representative of the Economic Commission for Europe (ECE) drew the attention of participants to the work being done by the Commission on scrap, and presented the following publications: "Steel product quality and maximum utilization of scrap" and "Iron and steel scrap: its significance and influence on further developments in the iron and steel industries" (already published), and "Problems arising from the use of iron and steel scrap" (still to be issued).

29. The representative of the Arab Iron and Steel Union (AISU) made a presentation on his organization and its ongoing activities.

D. PREPARATIONS FOR THE SECOND SESSION OF THE INTERGOVERNMENTAL GROUP OF EXPERTS ON IRON ORE (agenda item 6)

30. The Intergovernmental Group agreed on the following substantive items for inclusion in the provisional agenda for the second session of the Group:

- Review of iron ore statistics;
- Review of the current situation and outlook for iron ore;
- Annotated bibliography on iron ore - 1993.

31. The Intergovernmental Group proposed that the second session should be held from 25 to 27 October 1993.

E. OTHER BUSINESS
(agenda item 7)

32. Under this item, the Group considered the possible application by the IGEIO to the Common Fund for Commodities for designation as an eligible International Commodity Body (ICB) for Second Account purposes. The Group agreed to consider the issue at its forthcoming session under the agenda item on "Other business", and requested the UNCTAD secretariat to prepare an informal paper in this regard to be made available well in advance of the session so as to allow for a proper examination of the issue in the capitals.

F. CLOSING REMARKS BY THE CHAIRMAN

33. The Chairman expressed his great satisfaction with the results achieved during the session, which were in full accordance with the objectives of UNCTAD. He noted that a factor of increasing importance for the iron and steel industries was the emergence of new and environmentally sound technologies. In view of the interest now being taken in all countries in environmental concerns, and of the impact made by the recent United Nations Conference on Environment and Development, he hoped that environmental issues would be given attention at the second session of the Expert Group.

Chapter II

ORGANIZATIONAL MATTERS

A. Opening of the session

34. The first session of the Intergovernmental Group of Experts on Iron Ore was opened on 26 October 1992 by the incumbent Chairman, Mr. Bruce BOYD (Canada).

B. Election of officers (agenda item 1)

35. At its 1st (opening) plenary meeting, on 26 October 1992, the Intergovernmental Group of Experts on Iron Ore elected Mr. Sam-Hoon KIM (Republic of Korea) as Chairman and Mr. Tom KEATING (Australia) as Vice-Chairman-cum-Rapporteur.

C. Adoption of the agenda (agenda item 2)

36. The Group then adopted the provisional agenda for its first session (TD/B/CN.1/IRON ORE/1) as follows:

1. Election of officers
2. Adoption of the agenda and organization of work
3. Review of iron ore statistics
4. Review of the current situation and outlook for iron ore
5. Bibliography of relevant studies on iron ore
6. Preparations for the second session of the Intergovernmental Group of Experts on Iron Ore
7. Other business
8. Adoption of the report to the Standing Committee on Commodities.

D. Membership and attendance

37. The following States members of UNCTAD were represented at the session: Algeria, Australia, Austria, Belgium, Brazil, Bulgaria, Canada, Chile, Czechoslovakia, Egypt, France, Germany, Greece, Guinea, India, Italy, Japan, Madagascar, Mexico, Netherlands, Norway, Peru, Philippines, Republic of Korea, Romania, Russian Federation, Spain, Sweden, Switzerland, United Kingdom of Great Britain and Northern Ireland, United States of America, Venezuela.

38. The Economic Commission for Europe was represented at the session.

39. The following specialized agency was represented at the session: International Monetary Fund.

40. The following intergovernmental organization was represented at the session: European Economic Community.

41. A representative of the Arab Iron and Steel Union, a non-governmental organization, attended the session at the special invitation of the UNCTAD secretariat. 1/

E. Adoption of the report of the Intergovernmental Group of Experts to the Standing Committee on Commodities (agenda item 8)

42. At its 2nd (closing) plenary meeting, on 28 October 1992, the Intergovernmental Group of Experts adopted its draft report (TD/B/C.1/IRON ORE/L.1), with some amendments, and authorized the Rapporteur to complete the final version as appropriate.

1/ Participating by decision of the Group of Experts taken at its opening plenary meeting, on 26 October 1992.